

VZCZCXRO2587
PP RUEHCN RUEHGH
DE RUEHBJ #0250/01 0320104
ZNY CCCCC ZZH
P 010104Z FEB 10
FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC PRIORITY 7848
INFO RUEHOO/CHINA POSTS COLLECTIVE PRIORITY
RUEHUL/AMEMBASSY SEOUL PRIORITY 1462
RUEHKO/AMEMBASSY TOKYO PRIORITY 0181
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 000250

SIPDIS

E.O. 12958: DECL: 01/31/2020
TAGS: [ECON](#) [PREL](#) [ETRD](#) [EINV](#) [PGOV](#) [PINR](#) [MNUC](#) [KNNP](#) [KN](#)
KS, CH
SUBJECT: PRC/KOREAS: ROK EMBASSY VIEWS ON RECENT
DEVELOPMENTS AND TRENDS

REF: BEIJING 00139

Classified By: Classified by Economic Minister Counselor William Weinst
ein. Reasons 1.4 (b/d).

11. (C) SUMMARY: North Korea asked China to stop publishing cross-border trade statistics, the South Korean Ministry of Unification (MOU) Counselor in Beijing told Econoffs. The North's recent currency revaluation probably would work in the short term, but the he assessed the ban on foreign currency would be less effective. China-South Korea economic ties remained strong despite last year's drop in investment flows. ROK Economic Counselor Myunghee Yoo predicted that the upcoming ROK-PRK-Japan trilateral FTA negotiations would progress very slowly. END SUMMARY.

TRADE AND AID WITH NORTH KOREA

12. (C) Chinese officials told MOU Counselor Chang-ryul Lee that China Customs Statistics still collects monthly data on China-North Korea trade by product, but began reporting only the total figure in September 2009 at the North's request to cease publishing. Lee also noted that 49 percent of China's 2009 exports to North Korea consisted of oil, whereas the bulk of North Korean exports--on the order of 45 percent--were minerals. The pricing structures for these trades are not equal, according to Lee, who said that some of China's oil exports are considered aid. However, China recently told the North it would receive no more "discounts" on oil, including in the RMB 200 million in aid pledged during Premier Wen Jiabao's October 2009 trip to Pyongyang, which would not include any oil. The proliferation of unofficial cross-border trade, however, muddled the picture. Lee estimated that almost as much is traded unofficially as is recorded by China Customs.

13. (C) On North Korea's recent currency revaluation and foreign currency ban, Lee said that every family in the North has at least one person working in a market. Within the formal economy, a salaried worker earns an average of NKW 3,000 per month, whereas a person doing business in a market could earn up to NKW 100,000 per month. This disparity caused Pyongyang to fear losing control over the economy, and triggered the recent crackdowns. Lee believed Pyongyang could achieve its short-term goal of restoring control over markets, but that in the long run the country's economy would suffer.

14. (C) Although people with access to kitchen gardens previously sold their produce in markets, the revaluation has caused all such activity to dry up, continued Lee. First, no one has the money to purchase items at the markets, and second, producers are not willing to grow surplus food to sell under fluctuating economic policies. Everyone has lost

trust in the currency and those with goods to buy and sell have reverted to a barter system to conduct business, according to Lee. As for foreign currency, North Koreans were saving it because they knew they would be able to use it later. Lee opined that this willingness to save foreign currency--rather than give it over to the government--would allow North Koreans to continue to purchase some imports, and would in turn support Chinese-North Korean trade.

15. (C) Lee said that Chinese investment into North Korea remained small, mostly because of the unstable investment climate. Chinese companies tend to purchase minerals outright rather than expose themselves to risk by investing in mines.

CHINA-SOUTH KOREA TIES STILL STRONG

16. (C) On China-South Korea economic ties, Counsellor Yoo said that although the two countries would conclude their joint study on a free trade agreement (FTA) this year, many unresolved issues would make progress slow, noting that "every chapter is a problem." At the same time, South Korea's exports to China have boomed, with the surplus rising to USD 30 billion in mid-December 2009. Yoo said that exports of liquid crystal displays (LCD) and auto parts to China experienced record increases in 2009. Further, although 70 percent of South Korea's 2008 exports to China were for reprocessing--with only 30 percent remaining in China for end-use--this pattern was changing, and South Korean exports increasingly were staying in China. Concomitant with this rise has been an increase in

BEIJING 00000250 002 OF 002

anti-dumping accusations by the Chinese against South Korea, with one potential case against a chemical company involving USD 2.8 billion in 2009. Yoo expected Beijing to release the preliminary findings on its investigation in February or March 2010 but did not speculate on what the findings would say.

17. (SBU) Although the South Korean won (SKW) has appreciated against the renminbi because of the Chinese currency's peg to the dollar, last year's record surplus forestalled any complaints by the South Koreans. Yoo also noted that, although South Korea's flow of investment funds to China dropped in 2009, several major deals--including a Samsung-invested LCD factory--were in the works and that 2010 would see a rise in investment flows.

18. (C) South Korea was less concerned about behind-the-border issues such as IPR protection and indigenous innovation requirements in government procurement procedures, according to Yoo. Regarding the new indigenous innovation circular, Yoo said that no Korean companies had raised any complaints with her, but that she did know whether they really understood the implications of the circular.

INCREASED INTRA-ASIAN TRADE DUE TO CRISIS, CHINA'S POLICIES

19. (C) Yoo said that the global financial crisis, which shrank U.S. and EU export markets, not the lack of KORUS ratification, was pushing South Korea--and indeed other Asian countries--to look to their regional partners for increasing market share and economic integration. China hoped to achieve three goals through its FTAs, according to Yoo. First and foremost were its political and diplomatic objectives, which it believed it could further through strong economic ties. Second was its drive to secure natural resources. Third, and lowest on the list, was China's desire to have developing nations grant market status to China, which it perceived as a status boost.

HUNTSMAN